

VZCZCXRO1930
RR RUEHAG RUEHBC RUEHDE RUEHDF RUEHIK RUEHKUK RUEHLZ RUEHROV RUEHSR
DE RUEHLB #1775/01 3570454
ZNR UUUUU ZZH
R 220454Z DEC 08
FM AMEMBASSY BEIRUT
TO RUEHC/SECSTATE WASHDC 3814
INFO RUEHEE/ARAB LEAGUE COLLECTIVE
RUCNMEM/EU MEMBER STATES COLLECTIVE
RHEHAAA/NSC WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOG/USDOC WASHDC

UNCLAS SECTION 01 OF 03 BEIRUT 001775

SENSITIVE

SIPDIS

STATE FOR NEA/ELA
STATE PASS USTR FRANCESCKI
STATE PASS USAID BEVER/LAUDATO/SCOTT
TREASURY FOR MNUGENT AND SBLEIWEISS
USDOC FOR 4520/ITA/MAC/ONE
NSC FOR ABRAMS/RAMCHAND/YERGER/MCDERMOTT

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [PREL](#) [PGOV](#) [LE](#)

SUBJECT: LEBANON: USG CASH TRANSFER: IS GAS EXCISE TAX REFORM
ACHIEVABLE? (ECONOMIC WEEK IN REVIEW, DECEMBER 15 - 21, 2008)

CONTENTS

-- USG CASH TRANSFER: IS GAS EXCISE TAX REFORM ACHIEVABLE?
-- GOL OFFICIALLY ANNOUNCES POSTPONEMENT OF MOBILE PRIVATIZATION
-- PARLIAMENT ENDORSES SALARY INCREASES; STATE FINANCES UNDER
PRESSURE
-- EU ASSESSMENT TEAM STUDYING LEBANON'S TRADE ASSISTANCE NEEDS
-- GOL SEEKS FOREIGN ASSISTANCE FOR WATER PROJECTS
-- PM RELEASES NEW SERIES OF NATIONAL ACCOUNTS; 7.5 PERCENT REAL
GROWTH IN 2007
-- REMITTANCE INFLOWS TO LEBANON ARE ESTIMATED AT \$6 BILLION IN
2008
-- AUDI BANK INTERESTED IN EXPANDING RELATIONSHIP WITH OPIC
-- NEW AUCTION FOR CELLULAR VANITY NUMBERS TO RAISE REVENUES
-- FRANCE HOLDS CONFERENCE ON EU-ARAB NEAR EAST RELATIONS IN
DAMASCUS
-- MEA WILL RESUME FLIGHTS TO IRAQ IN JUNE 2009

USG CASH TRANSFER:
GAS EXCISE TAX REFORM ACHIEVABLE?

¶1. (SBU) In a December 18 meeting with NEA DAS Hale and the Ambassador, Finance Minister Mohammad Chatah said he may want to retain the imposition of a gasoline excise tax as a condition for the disbursement of USG budget support pledged at Paris III, instead of replacing it with a reform of electricity tariffs. With the falling price of oil, said Chatah, the gasoline tax stands, on the current sliding scale, at approximately 450 Lebanese pounds (about 30 cents) per liter -- well over the 300 Lebanese pounds per liter demanded under the U.S. condition. He noted fixing the tax permanently at 300 or 350 pounds would be politically uncontroversial, as the move would amount to a lowering of the current tax. Chatah is trying to put the gas excise tax on the cabinet's agenda so it can be approved in the coming weeks.

¶2. (SBU) Meanwhile, Chatah noted that Energy Minister Alain Tabourian was facing political pressure not to alter the electricity tariff structure, the reform of which Tabourian had placed at the center of his ministerial mandate. Tabourian issued a statement December 19 saying lower energy prices had obviated the need for tariff reform. Chatah suggested the Prime Minister could reduce political pressure on Tabourian by asking him to submit various tariff plans; the cabinet, voting as a whole, would provide cover for Tabourian. Chatah, while acknowledging reform was still

possible, assessed the current political climate might provide more challenges than expected. Therefore, he preferred to wait before agreeing to the change in USG conditionality.

MOBILE PRIVATIZATION
POSTPONED

13. (U) English newspaper The Daily Star reported on December 17 that PM Siniora confirmed the GOL will postpone the privatization of two state-owned mobile phone companies because of global market conditions. In the meantime, the GOL has decreed "pressing reforms in the sector," Siniora said.

SALARY INCREASES PRESSURE
STATE FINANCES

14. (U) On December 15, parliament approved legislation raising the minimum wage and across the board public sector salary increase. (Note: Cabinet had approved the measure on September 9. End Note.) Parliament also approved a five percent salary increase and the settlement of salary arrears for civil servants and retirees for the period 1996-1998. These measures will put substantial pressure on state finances and further exacerbate the already huge budget deficit. In addition, MPs voted to raise rent charges -- pegged by law to the minimum wage -- by 33 percent.

EU TEAM ASSESSING
TRADE ASSISTANCE NEEDS

BEIRUT 00001775 002 OF 003

15. (SBU) EconOff met December 15 with an EU team contracted to determine Lebanon's trade assistance needs in preparation for a 2010 EU assistance program. EconOff briefed the assessment team on the progress of USAID and MEPI's 8-year WTO accession program at the Ministry of Economy and Trade (MOET), as well as other USG programs aimed at private sector development. EU contactors are anxious to coordinate their upcoming assistance program with USAID as it rebids the contract for the MOET WTO project.

GOL SEEKS FOREIGN ASSISTANCE
FOR WATER PROJECTS

16. (U) On December 16, the Ministry of Energy and Water (MEW), in collaboration with the UN Food and Agriculture Organization (FAO), invited representatives of potential donor countries to a conference seeking technical assistance and financing for three water projects. According to Minister of Energy and Water Alain Tabourian, Lebanon will suffer from water shortage by 2020. USAID has been involved in helping MEW strengthen the institution capacity of its water establishments.

NEW NATIONAL ACCOUNTS SHOW
7.5 PERCENT REAL GROWTH IN 2007

17. (SBU) At the December 15 release of the 2006-2007 national accounts, PM Siniora said that real growth reached 7.5 percent in 2007. He added Lebanon can record higher growth if the economy remains separate from domestic political tensions. A senior contact at Audi Bank acknowledged the figure -- much higher than Central Bank of Lebanon and IMF estimates -- was slightly optimistic given the domestic political and security conditions in 2007. Nevertheless, the bank will adopt the official figure in its economic reports, he said.

2008 REMITTANCES TOTAL \$6 BILLION

18. (U) The World Bank (WB) estimated remittance inflows to Lebanon in 2008 will reach \$6 billion, or a four percent increase compared to 2007. Lebanon ranked 18 worldwide and third out of 12 MENA

countries in terms of value of remittances. The report estimated remittances to Lebanon equaled 24.4 percent of GDP in 2007, the fifth highest ratio in the world. Remittances from the Gulf Cooperation Council (GCC) countries, accounting for 26 percent of flows to MENA countries in 2008, are expected to decrease in 2009 with the continued drop in oil prices and the effects of the global financial crisis.

AUDI BANK WANTS EXPANDED
OPIC RELATIONSHIP

¶9. (SBU) Audi Bank has fully drawn \$100 million in Overseas Private Investment Corporation (OPIC) credit line guarantee (covering 15 years) arranged through Citibank, and has started extending loans locally to SMEs, housing, and retail, Audi Bank Senior Manager Khalil Geagea told us December 15. He said although the OPIC agreement is also open for lending in Jordan and Egypt, Audi Bank plans to ask OPIC for a stand-alone program for Egypt given the size of the Egyptian economy. Audi Bank Head of Regional Expansion Elia Samaha plans to meet in January 2009 with OPIC officials in Washington, D.C., to follow up on the potential Egypt program.

¶10. (SBU) Geagea said Audi Bank also has credit line agreements with the European Investment Bank (EIB, 60 ml Euros) and the French Development Agency (USAID counterpart; 25 ml euros) for lending to SMEs in Lebanon. Geagea was in Egypt December 16-18 to discuss a stand-alone facility for Egypt with both EIB and AFD. He said EIB expressed interest in doing business in Jordan with Audi Bank-Jordan. Geagea noted that while OPIC loans are easier to use and more flexible in terms of administrative procedures, follow-up, and reporting, EIB and AFD loans are cheaper.

NEW AUCTION FOR CELLULAR VANITY
NUMBERS TO RAISE REVENUES

BEIRUT 00001775 003 OF 003

¶11. (U) Minister of Telecommunications Gebran Bassil announced December 15 that Alpha, the cellular company currently managed by the ministry, will auction 50 vanity numbers on December 22 to bring additional revenues to the Treasury. Last October, the Ministry of Telecommunications collected \$2.5 million from the auction of 30 vanity numbers.

FRENCH CONFERENCE ON EU-ARAB
RELATIONS IN DAMASCUS

¶12. (SBU) Prominent economist Dr. Kamal Hamdan December 17 told us he will participate in a conference December 19-20 in Damascus to discuss EU-Arab Near East political, economic, social, and cultural relations. The event, co-organized by the French Embassy in Damascus, falls within the EU's Union for the Mediterranean initiative and occurs, Hamden assessed, within the context of reviving French-Syrian relations. Hamdan said about 20 experts have been invited to attend, including head of Carnegie Middle East Dr. Paul Salem, Syrian intellectuals, and about ten French experts.

MEA FLIGHTS TO IRAQ
TO RESUME JUNE 2009

¶13. (U) Minister of Transportation and Public Works Ghazi Aridi signed December 18 a MOU on air traffic between Lebanon and Iraq. The MOU calls for the resumption of national passenger carrier MEA flights to Iraq starting June 14, 2009, with up to 14 flights a week. MEA Chairman Mohammad Hout told us that MEA will first start serving Baghdad Airport; he plans to visit Iraq in late January/early February with auditors to check on Baghdad airport facilities, and security and safety arrangements. MEA suspended flights to Iraq in 1990 when Iraq invaded Kuwait.

SISON